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## THE FEDERAL FARM LOAN ACT

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This paper will discuss briefly the causes and steps leading up to the enactment of the federal rural credits law of July, 1916, the apparent intent of Congress in providing for two distinct farm-mortgage banking systems, the provisions made for safeguarding the proper granting of farm-mortgage credit, the means adopted for creating a form of security that will find ready access to the investment market, and finally the more important benefits that may reasonably be expected as a result of the new system.

Fundamental changes in American agriculture had been going on for many years prior to the agitation for federal rural credits legislation. The western frontier with its free lands had all but disappeared. Growth of population had led to increasing demands upon existing agricultural areas. The relatively extensive types of farming were rapidly giving way to more intensive systems. Increasing land values called for larger amounts of capital invested in land while the more intensive systems of farming made necessary a large increase in working capital. Coincident with these changes, there was in general a falling off in the actual rate of earnings on capital invested in farms. The returns from capital in the more highly developed agricultural regions were especially low. The fact that the earnings of farm capital did not appear sufficient to pay the prevailing interest rates and commissions called special attention to the inadequacy of existing rural credit facilities.

In the search for remedial action it was natural that inquiry should be made regarding improvement in rural credit facilities in the older agricultural countries of Europe. Especially significant in this direction was the action taken at the conference of the Southern Commercial Congress at Nashville, Tennessee, in April, 1912, when it was determined to send a representative body from the various states, later known as the American Commission, to investigate the subject in European countries. In March, 1913, President Wilson gave further impetus to this movement by appointing, for a similar purpose, the United States Commission. These two commissions sailed for Europe in April, 1913, and jointly collected a considerable amount of valuable information, which was largely embodied in Senate Documents No. 214, 261,

and 380, Sixty-third Congress. Senate Document No. 380 also contained a draft of a proposed rural credit law which was introduced into Congress as the formal recommendation of the commission under the name of the Moss-Fletcher, or Commission, Bill. This bill authorized the establishment under federal supervision of relatively small and independent joint-stock land banks which were intended to make loans direct to farmers on first-mortgage security and issue bonds based on such mortgages as collateral and on their capital stock. As originally proposed, these land banks might be organized with a minimum capital stock of \$10,000, but this minimum was later raised to \$100,000.

While information and suggestions were thus being supplied to Congress with the aid of studies conducted in Europe, the Secretary of Agriculture inaugurated an investigation of existing rural credit conditions and facilities in the United States. The results of this investigation were embodied partly in bulletins issued by the Department, partly in the annual reports of the Secretary, and partly in hearings before the Congressional Committees on Banking and Currency. These results were also utilized in informal coöperation with members of these committees.

The Congressional Committees on Banking and Currency conducted extensive hearings on both mortgage and personal farm credit during the years 1913 and 1914 and again in the fall of 1915. As a result of the work of these committees, there was formulated and introduced into Congress what became known as the Hollis-Bulkley, or Committee, Bill. This bill provided for not less than five regional federal land banks, each allotted its own exclusive territory. Farmers desiring loans from such land banks were not to obtain the loans direct, but would be compelled to become members of local farm-loan associations through which the loans would be obtained from the federal land banks. Mainly because of disagreement in Congress with reference to the matter of federal aid in providing rural credit facilities, the whole subject was referred to a joint congressional committee on rural credits in the spring of 1915. This joint committee agreed upon a bill on January 3, 1916, which bill underwent certain changes at the hands of conferees appointed by both houses and was then passed by the House June 27, by the Senate June 28, and was approved by the President July 17, 1916. The present law, as thus enacted, provides for a federal land-bank system embodying the leading features of the Committee Bill and also authorizes joint-stock

land banks, conforming in the main to the provisions of the Commission Bill. Inasmuch as recognition is given to these two distinct land-bank systems, the law has sometimes been characterized as a compromise.

Compare briefly the two classes of banks provided for in the present law. The joint-stock land banks are independent joint-stock companies with a minimum capital of \$250,000, each operating in not more than two states, and entirely dependent upon private investors for subscriptions to its capital. The federal land banks are interrelated regional institutions, twelve in number, each allotted an area prescribed by the Federal Farm Loan Board. Their prompt organization is assured by the provision that the federal treasury shall subscribe what is necessary to furnish the minimum \$750,000 capital stock for each, if private investors do not take up the stock within thirty days after the subscription books are opened. The farmer within the territory of a joint-stock land bank will have direct access to that bank, just as he has to existing banks or mortgage companies. To obtain a loan from a federal land bank, however, the farmer will be compelled, during the first year at least, to become a member of a local farm-loan association. In the case of a joint-stock land bank, no restriction is placed on the absolute amount of a loan nor on the purpose for which the proceeds of a loan may be used. A federal land bank, on the other hand, will not be permitted to make a loan in excess of \$10,000 nor for purposes other than those specified in the act.

The character of the business to be done by joint-stock land banks and federal land banks will be similar, however, in a number of respects. All loans must be made on first-mortgage security. No loan may exceed 50 per cent of the appraised value of the farm land and 20 per cent of the value of the permanent insured improvements. Loans must run for a period of not less than five nor more than forty years and be repayable in equal annual or semi-annual installments, so calculated that the debt will be extinguished at the end of the period. Loans must have an interest rate not exceeding 6 per cent and not exceeding by more than 1 per cent the interest rate on the latest bond issue. Apart from the sale of capital stock, both kinds of land banks will raise their money from the sale of bonds secured by farm mortgages and having a rate of interest not exceeding 5 per cent. All land banks organized under the act will be under the general supervision of the Federal Farm Loan Board of the Treasury Department.

In making provision for these two systems of land banks it was apparently the intent of Congress to meet two distinct credit needs among farmers. One way to improve credit conditions is to improve the security on which credit is based; but even with good security it is necessary to put the credit obligations into suitable form and market them to advantage. Some farmers are already in a position to furnish satisfactory security, while others are greatly in need of improvement in this respect. The federal land-bank system, with its local farm-loan associations, is designed for those farmers who are in need of improvement in their security as well as in the form of their credit obligations and the facilities for marketing them. The joint-stock land banks are intended for such farmers as are able to furnish adequate security and are interested in obtaining loans on better terms with as few restrictions as possible. A clear understanding of the distinction here drawn between the two classes of farmers must be kept in mind in order to appreciate the purpose of providing for two distinct land-bank systems.

In attempting constructive action for the benefit of the two classes of farmers here referred to, the most difficult problems were naturally presented in the case of those who were in need of improvement in their security as well as in the form of their credit obligations and the facilities for marketing them. Large numbers of farmers are thus situated, however, especially in the South and West, and the high interest rates and commissions which these farmers have been compelled to pay on such loans as they have been able to obtain made it imperative that they be given special consideration. It was felt that if legislation were to be justified at all it should apply to those in greatest need. Even in the case of these farmers, it was at no time contemplated to encourage the extension of credit without adequate security. The main question was to determine ways and means by which such farmers could furnish such improved security as would entitle them to credit on a sound investment basis.

In the discussion looking toward the solution of this problem there was manifested a demand for varying degrees of government aid. The most direct proposals for government aid involved the making of loans direct to farmers from government funds at a very low rate of interest. This issue, which reached its climax in the McCumber Amendment as passed by the House in the spring of 1915, led, as already stated, to the appointment of a joint con-

gressional committee on rural credits and to the postponement of legislation until the next Congress.

In the law as finally enacted in 1916, the principle was definitely accepted that the relation of the federal government to the system should be that of encouraging and assisting in the establishment of the necessary land-bank facilities and in supervising the same; and that, aside from such assistance as might be necessary in perfecting the machinery, as hereinafter explained, the government's cash or credit should not be utilized for the improvement of farm credit. How, then, was improvement in the security of farmers who needed such improvement to be effected?

The answer to this question is found in the adoption of the principle that the farmers themselves, through a degree of collective endorsement or guarantee, would be enabled to supply the necessary improvement in their security. In other words, collective liability, as applied in the leading rural credit systems of Europe but modified to meet as nearly as practicable the disposition and situation of the American farmer, was made an essential feature of the new system. The form of machinery designed to accomplish this is seen in the farm-loan association, which was made an integral part of the federal land-bank system. The only alternative to the local farm-loan association, namely, the local agent, provides the same degree of added guarantee or endorsement from a responsible and acceptable third party and thereby insures a corresponding degree of improvement in the farmer's security.

It has been noted that one of the important distinctions between the joint-stock land banks and the federal land-bank system lies in the fact that the prompt establishment of the latter is assured, inasmuch as government funds will be drawn upon, if necessary, to supply the initial capital, whereas the organization of the joint-stock land banks must await the initiative of private investors. This distinction was based on the assumption that private initiative could in general be relied upon to establish such land banks as would meet the requirements of farmers who as individuals were in a position to furnish adequate security for their loans. On the other hand, the relatively more difficult situation which the federal land-bank system was designed to meet made it seem highly improbable that the necessary private capital would be forthcoming to inaugurate the system, and provision for the use of government funds in perfecting this machinery was there-

fore made in a manner similar to that which insured the prompt establishment of the federal reserve banks.

It now appears likely that such joint-stock land banks as may be organized under the act will be located for the most part in the more highly developed areas where a profitable volume of loans from farmers with adequate security may be expected. On the other hand, the present demand for information regarding loans from federal land banks and the organization of local farm-loan associations comes mainly from the South and West, where the need for improvement in the farmer's security is most apparent.

Another important distinction also noted between the joint-stock and federal land-bank systems consists in the fact that farmers who individually possess adequate security will have direct access to a joint-stock land bank just as they now do in the case of an ordinary bank or mortgage company, whereas farmers needing improvement in their security will be obliged to obtain this through membership in, and the endorsement of, a farm-loan association or, under certain conditions, the equivalent guarantee from an agent. In general, it may be stated that all the main problems confronted in the work of joint-stock land banks are also present in the case of federal land banks; but the federal land banks, in addition, are confronted with problems in connection with the improvement of the farmer's security. Practically all the problems involved in the provisions of the present law arise either in safeguarding the proper granting of farm-mortgage credit or in providing the form of security needed to reach the investment market.

Consider first the matter of safeguarding the proper granting of farm-mortgage credit. There undoubtedly will be room for differences of opinion regarding the propriety of the provisions bearing on this as applied to the joint-stock and federal land banks. For the farmer with adequate security, the door to a joint-stock land bank, if there is one in his territory, is left wide open. He may borrow as much as the bank cares to lend him, subject only to the relation fixed between the loan and the underlying security. He may also use the money for any purpose he desires. The latter provision has been criticized on the ground that it will lend encouragement to speculative loan business. On the other hand, it is to be noted that the organization and management of joint-stock land banks will be similar in many respects to that of existing national banks, whose loans are likewise in large

measure free from legislative restriction as to amount or purpose. Moreover, inasmuch as the inauguration of joint-stock land banks is left entirely to private initiative and private capital, the question which appears uppermost for such institutions is to insure their safety as bond-issuing institutions, just as federal incorporation and supervision aim to insure a high degree of safety in the case of national banks.

The question becomes quite different in the case of the federal land-bank system. Here it is undertaken to establish improved farm-mortgage credit facilities for the benefit of the farmers in greatest need in all sections of the country; and to this end provision is made for twelve regional land banks, each with a minimum capital of \$750,000, the entire amount of which will, if necessary, be subscribed from funds in the federal treasury. Clearly, the use of public funds thus proposed must rest on the performance of a recognized public service, such as the general improvement of American agriculture, and cannot be countenanced if, through lending encouragement to a speculative loan business, it fails to perform such service. Where assistance is thus given by the federal government in the establishment of improved credit facilities, it may rightly be assumed that such restrictions should be applied as will lead to general agricultural improvement. As a matter of fact, all provisions and restrictions that may thus be applied to credit extension in the interest of general agricultural improvement are, broadly speaking, subordinate to the one principle of "safety first" in farming. Thus the restriction of loans to productive farm use is essentially a far-reaching means of preventing unwise use of farm capital. Stated another way, prevention as applied to speculative or unprofitable uses of farm capital is an essential feature of safe farming. If the losses due to unwise uses of farm credit could be estimated, they would run far into the millions. A reduction in such losses through intelligent prevention is one of the greatest needs of farm credit. The need for such prevention becomes all the more important as the amount of capital per farm increases.

The extent to which the use of farm credit is misdirected varies among farmers in different sections. Generally speaking, farmers in the more highly developed agricultural areas are applying the "safety first" principle more than those in the other sections, partly because they generally possess a better knowledge of farming requirements and partly because these areas are ordinarily favored by natural conditions.



"Safety first" implies adopting the best system of farming for a given locality, and it also implies adopting the best methods in carrying on the processes of the best system. The specific changes needed thus to prevent unnecessary losses and to increase and stabilize earning power may be brought about partly by the addition of capital for improvements such as live stock, improved machinery, or drainage; partly by the addition of land in order to make the size of the farm unit the most profitable; and partly by paying off an old debt that involves a high rate of interest and unsuitable terms of repayment. The changes needed cannot be brought about by encouraging the purchase of land at inflated prices, out of the range of its earning power.

In the determination of the wise uses of farm credit, the counsel and guidance of a voluntary local association of farmer borrowers may be especially valuable. The progressive farmer, who is interested in the use of productive credit, should not hesitate to seek such assistance. Fear of publicity in such matters is perhaps well founded so far as it involves consumptive credit. On the other hand, when credit is sought for productive use, the farmers should rather take pride in having it made known. What has thus been accomplished with the aid of credit and supervisory committees in the Raiffeisen and Landschaft societies of Europe is a matter of common knowledge. No less significant is the work of local building and loan associations in relation to home building in the United States. In all of these the proper granting of credit is carefully safeguarded and important services are performed which, without the aid of associated action, would have to be performed by other agencies at added expense.

Particularly in those cases where improvement in the security is needed, it is important that the extension of farm-mortgage credit should be not only properly safeguarded but economically administered. The services of the local farm-loan association contribute directly toward both of these objects. Its loan committee supplies without charge an appraisal of the lands offered as security. This committee also serves as a check in restricting loans to the objects permitted under the law. The secretary-treasurer of the association performs important services by transmitting approved applications and the necessary papers to the federal land bank, by handling all the funds, and by carrying on the necessary correspondence. He is also required by law to ascertain whether borrowers use the proceeds of their loans in the

manner specified in their application blanks and to report thereon to the federal land bank.

Each member individually subscribes for stock in the association equal to 5 per cent of the face of his loan. The association in turn subscribes for an equivalent amount of stock in the federal land bank. This 5 per cent stock subscription of the borrower is paid back to him at the maturity of his loan and is therefore not in the nature of an extra charge or bonus. It is primarily a guarantee deposit which, together with the additional liability of the stockholders for an equal amount, improves the security for the members' loans. At the same time, the stock also serves as an investment paying such dividends as may be declared. The services thus performed by a farm-loan association, including the selection of loans and the appraisal furnished for the underlying security, the transmittal of blanks and forms to the land bank, the handling of funds, the guarantee added by means of the double liability of the capital stock, and the attention given to the upkeep of the loans, all conduce to the proper and economical granting of credit by the federal land bank. And the federal land bank is enabled further to safeguard the proper selection of loans with the aid of the reports of a salaried government appraiser.

In connection with the discussion of the proper granting of credit by federal land banks, it should be stated that these banks were designed for farmers and not for capitalistic owners of farm lands. There may be a difference of opinion as to the interpretation of the requirement that a borrower must be engaged, or about to be engaged, "in the cultivation of the farm mortgaged." A ruling by the Federal Farm Loan Board will undoubtedly be necessary to interpret this provision. One interpretation would be that the farm owner, regardless of his residence, who shares the hazards of the business with the man who operates the farm, will be entitled to a loan, but that the owner whose farm is solely an investment, yielding a fixed or stipulated return in money or products, could not qualify as a borrower from a federal land bank. Another interpretation would be that only those farm owners who operate their farms, with or without hired help, and who therefore assume all the risks connected with the business, are entitled to loans under the act. This would bar out all farm land operated by tenants whether on a share or a cash rental basis. The former interpretation would undoubtedly enable the federal land banks to obtain a much larger volume of standard loans and thus

give assurance of the financial success of these institutions. On the other hand, the latter interpretation would conform more nearly with the popular interpretation of the act and would give impetus to a transfer of ownership in farm land to actual farm operators.

There is still a further consideration that deserves careful attention in a proper development of long-time farm-mortgage credit. The farmer is in need of such terms of repayment as will enable him gradually to extinguish his debt out of the earnings of the farm itself. The Federal Farm Loan Act makes specific provision for this by requiring that all loans made under the law must contain the amortization feature, that is, they must be repayable in equal annual or semi-annual instalments, so calculated that the loan is paid at the end of the period. This provision has been criticized on the general ground that it is too severe, and that the farmers do not want it.

If the provisions regarding the compulsory repayment of loans in periodic instalments were as rigid as some writers assume, the terms undoubtedly would be deserving of adverse criticism. However, a careful reading of these provisions shows that the borrower is given a very wide range of choice with reference to the manner of repayment. If the term of the loan is made forty years, the annual payment required for interest and principal exceeds what the interest alone would be by less than one per cent of the principal. With the lower interest rate, this annual payment would probably be less than the interest and commission charges now paid on similar loans running through to the end of the term without any reduction of the principal. And it is not necessary to allow the loan to run for the full term, since any borrower under the act has the privilege, after five years, of paying off the entire debt on any interest date, or of making any payment that he may wish, in multiples of \$25, in addition to the required amortization payment. This means that any loan under the act running for more than five years, does so at the option of the borrower. Again, the amortization requirement is criticized on the ground that it gradually reduces the amount of capital at the farmer's command, whereas the capital actually needed constantly increases with the development of farming. The general increase in farm-mortgage indebtedness is also cited as indicative of the farmer's need. As stated earlier in this paper, it is true that the farmer is in need of increasing amounts of capital. And

there is no reason why a borrower under the act may not ask for a reappraisal after the loan has run a few years, and renew or increase his loan. In fact, it is assumed that renewals or increases in loans will be made, as they may be warranted by improvement in the security or by other changes in conditions.

In further criticism of the amortization feature it is contended that the farmer seeks credit, like other business men, because he can make borrowed money earn more than he pays in interest and that he should therefore be allowed the continued and uninterrupted use of capital and not be compelled to repay it in small dribblets. In reply to this argument it may be said that the payment required on the principal, which, as already stated, is very small, may be thought of as a desirable stimulus to thrift for the average farmer, rather than as a disadvantage. Moreover, one of the most difficult problems involved in the attempt to furnish the farmer with a long-time loan at a low rate of interest is to insure the maintenance of a standard underlying security throughout the period of the loan. The necessity of adequately protecting such security in order to meet the requirement of the investment market makes the amortization requirement seemingly imperative in the case of long-time farm-mortgage loans.

The case would be entirely different if the loans under consideration were to run for relatively short periods of time—say from one to five years. For such loans a proper standard could undoubtedly be maintained without the amortization feature. This also suggests that the Federal Farm Loan Act, in its aim to supply improved facilities for farm-mortgage credit, is incomplete to the extent that it makes no provision for farm-mortgage loans of less than five years.

For the present, the task of establishing a nation-wide system under the existing limitations is doubtless all that should be attempted. In time, however, it is to be hoped that farm-mortgage loans of from one to five years may also be included within the scope of work contemplated under the law.

There is one provision in the act which makes it the duty of the Farm Loan Commission to study the various state laws relating to land titles, foreclosures, homestead exemptions, and other matters affecting mortgage securities. The purpose of this study is to determine whether such laws afford adequate safeguards to loans under the act. The federal board is empowered to declare mortgages ineligible whenever the state laws are deemed to afford

insufficient protection. This provision should exercise a desirable influence toward promoting uniformity and standardization in state laws affecting farm-mortgage securities.

A review of the foregoing discussion with reference to safeguarding the proper granting of farm-mortgage credit makes it apparent that all the questions raised are essentially questions of standardization. The provisions affecting the granting of credit all aim to insure a standard security for such credit extension. Thus, the restrictions placed on the purpose and the amount of loans from federal land banks, the means utilized to promote economical administration with the aid of services from the farm-loan associations, the provision for amortization payments on loans, the requirements for reserve funds and for the subscription by borrowers to capital stock, and the provision concerning state legislation, all aid in the standardization of the credit granted under this act.

Consider next the matter of providing the form of security needed to reach the investment market. Here, again, the questions involved are essentially questions of standardization. Under the prevailing practice in the farm-mortgage loan business in the United States, the original farm mortgage and note are sold to the investor. The latter is thereby subjected to certain disadvantages, since he must either have personal knowledge of all the essential circumstances affecting the security in question or he must rely upon a third party for information or protection. If he depends upon his own acquaintance with the conditions involved, he must have intimate knowledge of the farm mortgaged, must be assured of the validity of the land title, and must give attention to the upkeep of payments for taxes and insurance. And he accepts the responsibility of dealing with any irregularity that may arise in payments of interest or principal. A considerable part of the farm-mortgage loans in the United States are held by investors of this class. On the other hand, where the investor does not have the necessary knowledge of the circumstances affecting the safety of a given mortgage loan and is compelled to rely upon the representation or guarantee of a third party, such as a mortgage company or a mortgage bank, he must have knowledge regarding the reliability of the particular mortgage company or mortgage bank. And while many of these institutions have established a reputation for reliability, it is often difficult for an investor to discriminate between those that make reliable representations and those that do not. Moreover, the investor who

purchases an original mortgage and note often finds it difficult to obtain a mortgage for just the amount which he desires to invest; or the period of time for which the mortgage is made may be too short or too long; or the prompt payment of the interest may not be assured to his satisfaction.

Such considerations as these have emphasized the importance of establishing institutions capable of assembling farm mortgages, carefully selected according to reliable standards, and, on the basis of such mortgages as collateral, of issuing bonds in convenient denominations, running for suitable periods of time, and with convenient and reliable means for the collection of payments for interest and principal. As long as the investor purchases the original mortgage and note without the guarantee of a third party, he theoretically buys on inspection, whereas the purchase of a farm-loan bond means buying on grade. This difference between buying on inspection and buying on grade is a very significant one. Its application is familiar in many of our marketing problems. The change from buying on inspection to buying on grade, however, necessitates the promulgation of clearly defined and reliable standards. A buyer of wheat, for example, would want to inspect personally the particular grain offered for sale unless it represented a uniform product which could be adequately described to him by means of a designated grade and unless he had satisfactory assurance that the particular grain actually conformed to the grade designated. However, having given these conditions it is obvious that the buyer would much prefer buying on grade because it would save him considerable trouble and inconvenience.

The same considerations apply in the case of farm mortgages. Being offered a farm-mortgage security conforming to a definite uniform standard and being offered satisfactory assurance or guarantee that the security conforms to the standard designated, the investor would undoubtedly prefer such security because it would save him the trouble and inconvenience of investigating the various conditions and circumstances affecting the original mortgage and note.

Before proper assurance can be given the investor, however, in regard to the quality of farm-mortgage securities sold on grade, as in the case of farm-loan bonds, there are important considerations to be met.

There is still a vivid recollection in the minds of many people, and especially of individual investors and savings institutions in

the New England and North Atlantic states, of the disastrous history of more than 160 institutions which undertook to sell debentures based on farm mortgages in this country during the later eighties and early nineties. The tragic ending of these companies is regarded by some of our present-day writers as a final argument against the proposal to encourage the establishment of farm land banks.

However, the causes for the failure of those early debenture companies are of such a character that they can be successfully avoided under a system of land banks properly organized and supervised. The checkered career of our early banks and insurance companies was in many respects equally disheartening, but the experience thus gained formed the basis for the successful inauguration of government regulation as applied to such institutions. Similarly, important safeguards have been provided for the land banks under the Federal Farm Loan Act to prevent a recurrence of those conditions which led to failure in the early debenture companies. Attention has already been called to these safeguards as applied to the granting of credit under the act. Such provisions should lead to the careful selection of standard mortgage securities and render impossible the use of boom estimates in land values, which assisted in undermining the earlier companies. Attention has also been called to the provisions for capital stock which, with the accumulations required for a reserve, should constitute an adequate protection fund. No federal land bank will be permitted to issue bonds in excess of twenty times the amount of its capital and surplus, while no joint-stock land bank may issue bonds in excess of fifteen times its capital and surplus. These provisions, which are based on the approved practice of the leading bond-issuing institutions of Europe, were entirely lacking in the early debenture companies.

One of the greatest evils connected with the practices of the early debenture companies was the tendency constantly to substitute inferior mortgages for collateral securities withdrawn. Careful provision has been made with a view to preventing any such tendency under the new law. The appraisal system already described and the various provisions restricting the granting of credit aim to insure the selection of standard mortgage securities by the land banks, and the provisions bearing on the duties of the government registrar or trustee are designed to guard against any improper substitution of mortgages held as collateral.

Finally, the early debenture companies were subject to no in-

spection or supervision under state or federal law, whereas the land banks under the new law will be safeguarded by a careful system of federal inspection and supervision. The general administration of the law is vested in the Federal Farm Loan Board of the Treasury Department, which is charged with the duty of designating the land bank districts and cities, appointing a temporary board of directors for each of the federal land banks, and certain permanent officials, including bank examiners, appraisers, and registrars. Even after the federal land banks are ready for permanent organization, having received subscriptions for their stock from farm-loan associations amounting to not less than \$100,000, the federal board appoints three of the nine directors for each such bank, while the associations of borrowers elect the remaining six members. It is evident that very grave responsibility is thus placed upon the Federal Farm Loan Board and that the success of the new system will depend in large part upon how ably and efficiently the board performs its duties. One of the most vital elements for success will be the fitness and energy of the men who are placed at the head of each of the land banks. Only active, experienced, and efficient men will be able properly to develop the business of these institutions. Such men must understand fully the needs and interests of farm borrowers and establish such contact as will enable worthy farmers to take advantage of the new system without being subjected to serious delay; and at the same time they must understand and apply the rigorous standards of a sound and enduring business policy and thus be able to develop and maintain institutions for standard investment securities. Not only will the appointments made by the federal board be of the highest importance, in this connection, but an equally critical choice will be made later when the farm-loan associations themselves elect two-thirds of the managing bodies for the federal land banks. Will these farm-loan associations make their choices in keeping with the requirements of the duties and responsibilities involved? Will they place above all other interests the considerations of efficient administration and the maintenance of uniformly high business standards? Will they be farsighted enough unflinchingly to place the broad business interests of the federal land bank above what in some circumstances of severe pressure might appear to be the immediate interests of the borrowers themselves? Here, again, the supervising function of the Federal Farm Loan Board must necessarily play an important part in the successful development of the land bank.



However ably and well the managing bodies of each of the federal land banks perform their duties, the results of their work will depend largely upon the kind of support given by the local farm-loan associations. And here it seems clear that if the new system is to be taken advantage of by those farmers who are worthy of and in need of improved credit and for whose benefit the law is primarily designed, there will be need of systematic and thorough missionary or educational work. It will be no small task to bring to farmers generally a proper understanding and appreciation of just what the new system aims to do and what it does not undertake to do for the farmer.

The Federal Loan Board realizes the importance of educational work in this connection and is arranging for the active coöperation of the federal Department of Agriculture and of the extension workers in the several states for this purpose.

What then may reasonably be expected under the new system? The borrower, especially in the South and West, who qualifies under the act will undoubtedly obtain a mortgage loan at a materially reduced rate of interest. Borrowers generally in all parts of the country will have better access to a long-time mortgage loan affording convenient terms of repayment. Moreover, they will have a dependable source to which they may turn at all times and be reasonably assured of obtaining such credit as their security justifies. To many borrowers it will seem no small advantage to claim such accommodation as a right without being compelled to beg for it.

In addition to obtaining advantages directly connected with the loan itself, the borrower is confronted with a practical demonstration of the advantages of teamwork in his relations with the farm-loan association. Having found that coöperative effort actually assists him to improve his credit, he acquires a new confidence in the value of coöperation in its relation to the promotion of other interests. At the same time, he experiences a wholesome stimulus to thrift in the requirement that he periodically reduce in some measure the debt he owes to the land bank. Many borrowers will also be greatly assisted in their efforts to acquire ownership of farm homes. The tenant or other landless man who has accumulated some savings should be enabled to arrange for the purchase of a farm by paying a part of the purchase price and meeting the balance partly with a first-mortgage loan under the act and partly with a second mortgage either to the vendor or to a third party.

In mentioning this possibility it may not be out of place to give warning against extravagant hopes for the elimination of farm tenancy. The existence of the tenant farmer in an agricultural economy rests on far deeper foundations than the one question as to what credit facilities are available.

There are also benefits to the investor. He will have ready access to a standard form of security issued in convenient denominations of \$25, \$50, \$100, \$500, and \$1000. The opportunity and inducement for smaller savings than the minimum \$25 bond is also provided. Each farm-loan association is permitted to receive current deposits, giving therefor certificates bearing interest at not to exceed 4 per cent per annum and running for not longer than one year. These certificates are convertible into land-bank bonds when presented to the federal land bank of the district in amounts of \$25 or any multiple thereof.

There is one provision in the law that has been criticized because it contemplates under certain conditions the temporary deposit of funds from the Treasury in a federal land bank. Such deposits, however, if made, would not be different from those now actually placed by the federal Treasury in existing banks. In any case, the Secretary of the Treasury is authorized to use his discretion in making such deposits and satisfactory security must be given by the federal land bank. The law provides that these deposits must not exceed \$6,000,000 in the aggregate at any one time, and that the interest rate paid thereon by the banks must not exceed the interest charged for other government deposits.

Much more important than the provision for government deposits, from the standpoint of both the borrower and the investor, is the provision in the act by which all mortgages accepted and bonds issued under the law, and incomes derived therefrom, and also the capital, surplus, and income of the federal land banks and the local loan associations, are exempt from federal, state, municipal, and local taxation. This exemption will make the farm-loan bonds especially attractive to investors and will assist in reducing considerably the interest rate charged the borrower.

In conclusion it may be stated that the benefits to be expected from the new system will be mainly the result of standardization as applied to the credit granted under the act and to the form of security placed on the market. The success of the new system will depend upon how satisfactory a standard for farm-mortgage credit is established and upon how well this standard is maintained by the land banks and the federal supervisory authorities.